GOVERNMENT OF INDIA
FINANCE
LOK SABHA

UNSTARRED QUESTION NO:181
ANSWERED ON:18.02.2009
LIQUIDITY IN PSBS AND NBFCS
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Will the Minister of FINANCE be pleased to state:

(a) whether the Public Sector Banks (PSBs) and Non-Banking Finance Companies (NBFCs) are facing problems in liquidity;

(b) if so,the details thereof indicating the money infused in the banking system since September, 2008;

(c) whether the Government proposes to take a loan of three billion dollars from the World Bank for the re-capitalisation of the Public Sector Banks;

(d) if so, the details thereof;

(e) the additional measures taken by the Government to encourage liquidity in Public Sector Banks (PSBs) and Non-Banking Financing Companies (NBFCs) during the current fiscal year; and

(f) the amount of loans / advances given / being given to individuals, Small Scale Industries (SSI) and Micro Small and Medium Enterprises (MSME) from these institutions as a result of these measures?

Answer

MINISTER OF THE STATE IN THE MINISTRY OF FINANCE (SHRI PAWAN KUMAR BANSAL)

(a), (b) & (e): In response to the knock-on effects of the evolving global financial crisis on the domestic financial markets,Reserve Bank of India (RBI) has taken a number of measures since mid-September 2008 to ensure uninterrupted and adequate credit to the productive sectors of the economy.Government of India has also announced two stimulus packages on 7.12.2008 and 2.01.2009. The measures taken by Government and RBI,inter-alia, include−

(i) augmenting domestic liquidity through incremental reduction in Cash Reserves Ratio (CRR), Statutory Liquidity Ratio (SLR),Repo Rate, Reverse Repo Rate, etc.,conducting a special fix rate Repo at 9% per annum against SLR securities to enable banks to meet the liquidity requirements of mutual funds and Non-Banking Finance Companies (NBFC), etc.;

(ii) augmenting forex liquidity through upward revision in interest rate ceiling on FCNR(B) and NR(E)RA deposits,permitting banks to borrow funds from their overseas branches and correspondent banks, special market operation by RBI to meet the forex requirements of public sector oil marketing companies,permitting systemically important non-deposit taking Non-Banking Finance Companies (NBFCs-ND-SI) to raise short-term foreign currency borrowings, etc;

(iii) on 02.01.2009, Government announced another stimulus package providing, inter-alia, additional measures for the economy such as − (a) setting up of a special purpose vehicle (SPV) to provide liquidity support against an investment grade paper to NBFCs-ND-SI. The total support from the RBI will be limited to Rs.20,000 crore with an option to raise it by a further Rs.5,000 crore, (b) upward revision of credit targets of Public Sector Banks to meet the needs of the economy, etc.

The measures of the Reserve Bank since mid-September 2008 have resulted in augmentation of actual/potential liquidity of over Rs.3,88,000 crore. In addition, the permanent reduction in SLR by 1.0 per cent of NDTL has made available liquid funds of the order of Rs.40,000 crore for the purpose of credit expansion.

The detailed notifications / press releases issued by Government and RBI are available at their respective websites www.pib.nic.in and www.rbi.org.in.

(c) & (d): To enable the public sector banks (PSBs) to meet enhanced credit requirements of the economy while maintaining a healthy and comfortable level of regulatory Capital to Risk- weighted Assets Ratio,Government has proposed to provide capital funds to these banks through World Bank assistance. The exact amount of capital to be provided to the PSBs has not been finalised.

(f): The total gross advances of PSBs have increased from Rs.15,30,181 crore as at the end- December,2007 to Rs.19,60,769 crore as at the end-December,2008 registering an increase of 28.14%.